

Jankiel Santos*

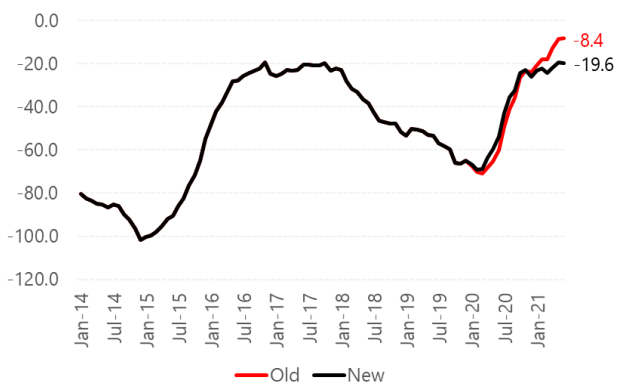
jankiel.santos@santander.com.br

+5511 3012-5726

NEW CHARACTERS, BUT THE SAME PLOT

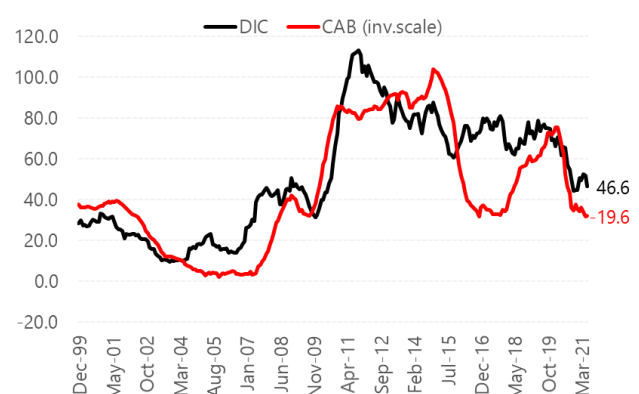
- The US\$2.8 billion monthly surplus in the June 2021 Brazilian current account fell slightly short of our estimate (US\$3.0 billion surplus), but its dynamics were in line with what we had expected: a sizeable trade surplus offsetting deficits in the services and primary income accounts.
- However, the semi-annual data revision carried out by the Brazilian Central Bank (BCB) in the historical series revealed that remittances of profits and dividends had been underestimated in 2020 and 2021, which led to a downward shift in the annual level of the current account balance. Instead of hovering around US\$8.0 billion, the current account deficit is closer to US\$20.0 billion on a 12-month basis.
- On the other hand, the revision also showed an increase in the volume of direct investments on the same basis, which means, in our view, that Brazil continues to have a reliable (and sizeable) funding source to face its external financing needs. Additionally, the country also witnessed the third consecutive month of net inflows related to the acquisition of Brazilian financial assets, thus enlarging the base of funding.
- All in all, despite the downward shift introduced in the current account deficit, we continue to believe that the country bears a favorable external situation. Preliminary figures for the balance of payments provided by the BCB indicate we should have another monthly surplus in the current account balance in July (US\$1.7 billion), close to our current projection (US\$1.5 billion). Consequently, **we still expect the current account deficit to shrink in the coming months on a 12-month basis, with the present tracking indicating an annual current account deficit circa US\$12.0 billion.**

Figure 1.A.: Current account balance
Revised and prior time series
(USD billion, 12M)



Sources: Brazilian Central Bank, Santander.

Figure 1.B.: Current account balance vs. Direct
Investments in the country
(USD billion, 12M)



Sources: Brazilian Central Bank, Santander.

The Brazilian balance of payments in June 2021 revealed a current account monthly surplus slightly below our estimate (US\$2.8 billion versus US\$3.0 billion, respectively), but with its dynamics in line with our expectations (i.e., sizeable trade surplus offsetting negative readings in the services and primary income accounts). While the current account balance was in line with expectations, the volume of foreign direct investments into the country (DIC) diverged

IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE "IMPORTANT DISCLOSURES" SECTION OF THIS REPORT.

U.S. investors' inquiries should be directed to Santander Investment Securities Inc. at (212) 583-4629 / (212) 350-3918.

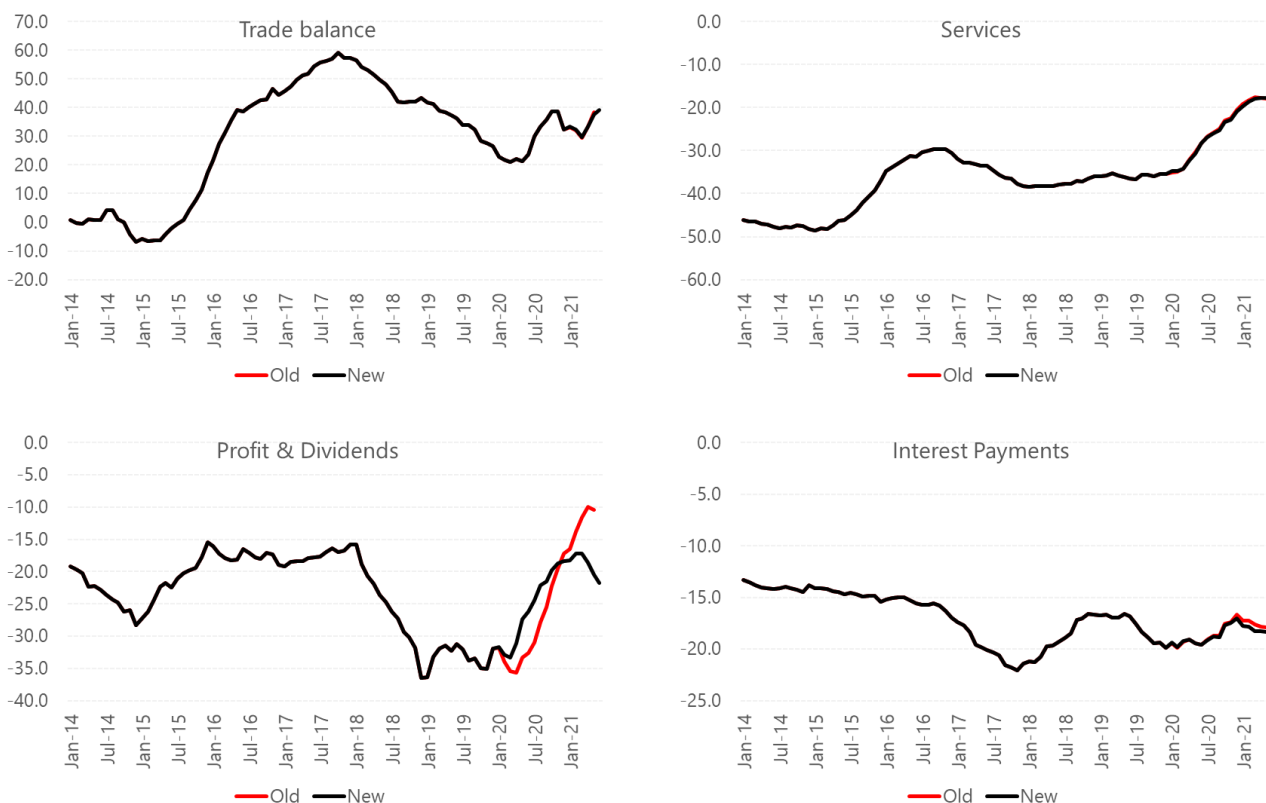
* Employed by a non-US affiliate of Santander Investment Securities, Inc. and is not registered/qualified as a research analyst under FINRA rules.



substantially, as it showed net inflows of US\$0.2 billion in the period—far below our estimate of US\$2.5 billion—on the heels of stronger payments of intercompany loans than preliminary figures provided by the BCB had indicated. Notwithstanding this negative surprise on the DIC front, the amount of foreign acquisitions of Brazilian financial assets remained positive for the third month in a row and reached US\$5.1 billion last month. Therefore, on top of current account surpluses, the Brazilian balance of payments continued to have plenty of funding sources to meet its external financing needs, which we expect to buttress the constructive perception about the Brazilian external position.

Despite these favorable developments, the semi-annual revision carried out by the BCB in the time series of the Brazilian balance of payments indicated a higher current account deficit on a 12-month basis than previously thought. The changes were concentrated in the numbers of 2020 and 2021 and affected chiefly the remittances of profits and dividends, as the BCB suggested that there was an overestimation of the impact of the economic drag on these payments brought by the COVID-19 pandemic.

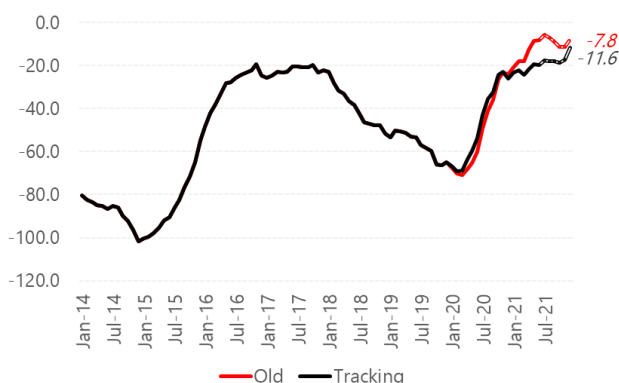
Figure 2: Selected components of the current account balance (US\$ billion, 12M)



Sources: Brazilian Central Bank, Santander.

That is, most of the components of the current account balance remained fairly unchanged and were in line with what we expected, which indicates its deficit on a 12-month basis should shrink as compared to 2020.

Figure 3: Current account balance (USD billion, 12M)



Sources: Brazilian Central Bank, Santander.



CONTACTS / IMPORTANT DISCLOSURES

Brazil Macro Research

Ana Paula Vescovi*	Chief Economist	anavescovi@santander.com.br	5511-3553-8567
Mauricio Oreng*	Head of Macro Research	mauricio.oreng@santander.com.br	5511-3553-5404
Jankiel Santos*	Economist – External Sector	jankiel.santos@santander.com.br	5511-3012-5726
Ítalo Franca*	Economist – Fiscal Policy	italo.franca@santander.com.br	5511-3553-5235
Daniel Karp Vasquez*	Economist – Inflation	daniel.karp@santander.com.br	5511-3553-9828
Tomas Urani*	Economist – Global Economics	tomas.urani@santander.com.br	5511-3553-9520
Lucas Maynard*	Economist – Economic Activity	lucas.maynard.da.silva@santander.com.br	5511-3553-7495
Felipe Kotinda*	Economist – Credit	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	gabriel.couto@santander.com.br	5511-3553-8487
Gilmar Lima*	Economist – Modeling	gilmar.lima@santander.com.br	5511-3553-6327

Global Macro Research

Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@santander.pl	48-22-534-1888
Juan Cerruti *	Senior Economist – Argentina	jcerruti@santander.com.ar	54 11 4341 1272
Ana Paula Vescovi*	Economist – Brazil	anavescovi@santander.com.br	5511-3553-8567
Juan Pablo Cabrera*	Economist – Chile	jcabrera@santander.cl	562-2320-3778
Guillermo Aboumrad*	Economist – Mexico	gjaboumrad@santander.com.mx	5255-5257-8170
Piotr Bielski*	Economist – Poland	piotr.bielski@santander.pl	48-22-534-1888
Mike Moran	Head of Macro Research, US	mike.moran@santander.us	212-350-3500

Fixed Income Research

Juan Arranz*	Chief Rates & FX Strategist – Argentina	jarranz@santanderrio.com.ar	5411-4341-1065
Mauricio Oreng*	Senior Economist/Strategist – Brazil	mauricio.oreng@santander.com.br	5511-3553-5404
Juan Pablo Cabrera*	Chief Rates & FX Strategist – Chile	jcabrera@santander.cl	562-2320-3778

Equity Research

Miguel Machado*	Head Equity Research Americas	mmachado@santander.com.mx	5255 5269 2228
Alan Alanis*	Head, Mexico	aalanis@santander.com.mx	5552-5269-2103
Andres Soto	Head, Andean	asoto@santander.us	212-407-0976
Claudia Benavente*	Head, Chile	claudia.benavente@santander.cl	562-2336-3361
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderrio.com.ar	5411-4341-1564
Mariana Cahen Margulies*	Head, Brazil	mmargulies@santander.com.br	5511 3553 1684

Electronic

Bloomberg
Reuters

SIEQ <GO>
Pages SISEMA through SISEMZ

This report has been prepared by Santander Investment Securities Inc. ("SIS"; SIS is a subsidiary of Santander Holdings USA, Inc. which is wholly owned by Banco Santander, S.A. "Santander"), on behalf of itself and its affiliates (collectively, Grupo Santander) and is provided for information purposes only. This document must not be considered as an offer to sell or a solicitation of an offer to buy any relevant securities (i.e., securities mentioned herein or of the same issuer and/or options, warrants, or rights with respect to or interests in any such securities). Any decision by the recipient to buy or to sell should be based on publicly available information on the related security and, where appropriate, should take into account the content of the related prospectus filed with and available from the entity governing the related market and the company issuing the security. This report is issued in Spain by Santander Investment Bolsa, Sociedad de Valores, S.A. ("Santander Investment Bolsa"), and in the United Kingdom by Banco Santander, S.A., London Branch. Santander London is authorized by the Bank of Spain. This report is not being issued to private customers. SIS, Santander London and Santander Investment Bolsa are members of Grupo Santander.

ANALYST CERTIFICATION: The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed, that their recommendations reflect solely and exclusively their personal opinions, and that such opinions were prepared in an independent and autonomous manner, including as regards the institution to which they are linked, and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report, since their compensation and the compensation system applying to Grupo Santander and any of its affiliates is not pegged to the pricing of any of the securities issued by the companies evaluated in the report, or to the income arising from the businesses and financial transactions carried out by Grupo Santander and any of its affiliates: Jankiel Santos*. *Employed by a non-US affiliate of Santander Investment Securities Inc. and not registered/qualified as a research analyst under FINRA rules, and is not an associated person of the member firm, and, therefore, may not be subject to the FINRA Rule 2242 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account.

The information contained herein has been compiled from sources believed to be reliable, but, although all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading, we make no representation that it is accurate or complete and it should not be relied upon as such. All opinions and estimates included herein constitute our judgment as at the date of this report and are subject to change without notice.

Any U.S. recipient of this report (other than a registered broker-dealer or a bank acting in a broker-dealer capacity) that would like to effect any transaction in any security discussed herein should contact and place orders in the United States with SIS, which, without in any way limiting the foregoing, accepts responsibility (solely for purposes of and within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934) for this report and its dissemination in the United States.

© 2021 by Santander Investment Securities Inc. All Rights Reserved.

